

D.T.E. 03-86

Petition of KeySpan Energy Delivery New England for approval of its energy efficiency performance summary and shareholder incentive calculation for the period May 1, 2002 through April 20, 2003 and final budget for the period May 1, 2003 through April 30, 2004.

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APPEARANCES:

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Intervenor

## I. INTRODUCTION AND PROCEDURAL HISTORY

\_\_\_\_\_ On August 18, 2003, KeySpan Energy Delivery New England (“KeySpan” or “Company”) filed with the Department of Telecommunications and Energy (“Department”) a petition for approval of its energy efficiency performance summary for the period May 1, 2002 through April 30, 2003 (“Program Year 1”), shareholder incentive calculations for Program Year 1 and final budget for the period May 1, 2003 through April 30, 2004 (“Program Year 2”).<sup>1</sup> The petition was docketed as D.T.E. 03-86.

Pursuant to notice duly issued, the Department conducted a technical conference on KeySpan’s filing on October 20, 2003. On October 30, 2003, the Commonwealth of Massachusetts Division of Energy Resources (“DOER”) submitted comments on the petition (“DOER Letter”) and was granted intervenor status. An evidentiary hearing was held at the Department’s offices on March 10, 2004. KeySpan presented the testimony of Bruce Johnson, director of energy management and marketing for the Company. On April 2, 2004, KeySpan submitted a brief in support of its filing. The evidentiary record consists of the Company filing, 54 responses to information requests and eleven responses to record requests.

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<sup>1</sup> The Company’s filing was made in accordance with section II G of the Joint Offer of Settlement (“2002 Settlement”) approved in KeySpan Energy Delivery New England, D.T.E. 02-31 (2002). In accordance with the 2002 Settlement, KeySpan conferred with the parties to the 2002 Settlement in developing the instant filing.

## II. STANDARD OF REVIEW

The Department has established guidelines that set forth the manner in which the Department reviews ratepayer-funded energy efficiency plans. Order Promulgating Final Guidelines to Evaluate and Approve Energy Efficiency Programs, D.T.E.98-100 (2000) (“DTE Guidelines”). In accordance with the DTE Guidelines, each natural gas local distribution company (“LDC”) submits for review by the Department its proposed energy efficiency plan, pursuant to a schedule established by the Department. DTE Guidelines at § 6.3. The Department opens a docket according to its established procedures, including issuing public notice and providing the opportunity to petition to intervene. Id. When an entity seeking Department approval of its plan requests a different method from the specified Guidelines, the burden falls on that entity to demonstrate the compelling nature of such a request. DTE Guidelines at § 1(2); Massachusetts Electric Company, 00-65-A at 6 (2002); NSTAR Electric Company, D.T.E. 00-63-A at 7 (2003); Western Massachusetts Electric Company, D.T.E. 00-79-A at 7 (2003).

## III. COMPANY PROPOSAL

### A. Summary of Company’s Proposal

KeySpan’s energy efficiency plan (“Plan”) provides for energy efficiency programs for low-income, residential, multi-family, and commercial and industrial (“C&I”) customers (Exh. KS-1, exhs. 1-5; Exh. DTE 1-3, Table 1). The programs include traditional retrofit-type energy efficiency measures, as well as market transformation initiatives

(Exh. DTE 1-3, Table 1).<sup>2</sup> All of the energy efficiency programs included in the Plan have benefit-cost (“B/C”) ratios greater than or equal to 1.0 (id.). KeySpan proposes to increase its annual energy efficiency program budget from \$12,000,000 to \$12,500,000 (Exh. KS-1, at 1). The Company proposes to allocate the additional \$500,000 to the low-income program (id.). In addition, the Company proposes to change the method for calculating energy efficiency shareholder incentives in three ways: (1) to substitute a fixed-rate percentage in place of the variable three-month U.S. Treasury bill rate; (2) to lower the performance levels for earning incentives; and (3) to include additional performance metrics that would be used to determine energy efficiency shareholder incentives for Program Years 2 through 5 (id. at 2).<sup>3</sup> KeySpan also proposes to change the Residential Conservation Services (“RCS”) performance metrics (id. at Att. B).<sup>4</sup> We describe the individual components of the Company’s proposal below.

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<sup>2</sup> Traditional retrofit-type energy efficiency measures include measures such as attic insulation, floor insulation, wall insulation, duct insulation, heating system replacement, and steam pipe insulation. Market transformation initiatives are programs designed to transform markets for energy efficiency products. They attempt to move the acceptance and implementation rate of an energy efficiency measure or practice to a point earlier than what would have occurred in the normal marketplace without the program (Exh. DTE 1-3, Att. 1-3-A at 8, 19-31).

<sup>3</sup> KeySpan stated that, consistent with the DTE Guidelines, the Company currently calculates the after-tax shareholder incentives as the product of (1) the average yield of the three-month United States Treasury Bill; (2) total program implementation costs; and (3) the percentage of the design performance level achieved (RR-DTE-4).

<sup>4</sup> The RCS program is separate from the Company’s energy efficiency programs (Exh. KS-1, Att. B).

B. The Low-Income Program

The Company seeks permission to raise the annual energy efficiency budget to \$12.5 million from \$12 million (id. at 2). The Company explains that the additional \$500,000 will be allocated entirely to low-income programs (id. at 1). Consequently, the low-income energy efficiency program's annual budget will increase from \$2.7 million to \$3.2 million (id. at exh. 4). The Company states that the budget and participation rate will remain constant through the remaining program years (Exh. DTE 1-5). The Company states that the settling parties in D.T.E. 02-31 ("Settling Parties")<sup>5</sup> determined that, due to the number of customers seeking to participate in KeySpan's program, the current \$2.7 million level of funding was insufficient to provide comprehensive weatherization measures in a cost-effective manner (Exh. KS-1, at 2). The Company identified the following factors in the Settling Parties' decision to reconsider the funding level: (1) an anticipated labor/material price increase; (2) the ability of the low-income agencies to serve more customers;<sup>6</sup> and (3) feedback from the

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<sup>5</sup> The Settling Parties are: DOER, the Northeast Energy Efficiency Council, the Massachusetts Energy Director's Association and the Massachusetts Community Action Association.

<sup>6</sup> In Program Year 1, the Company set a goal of 1050 participants in the low-income program. Due to an increased need for services and ability of the program's infrastructure to handle more customers, the Company was able to serve 1102 customers (Exh. DTE 1-5).

low-income network indicating that additional services per household are warranted (Exh. DTE 1-5).<sup>7</sup>

The Company states that participation is the primary driver in over-or under-spending on a given energy efficiency measure ( Brief at 6). KeySpan asserts that the choices for the Settling Parties were to address the level of participation by either requesting a budget increase, or reducing the level of weatherization services offered (id.). The Company explains that since it was able to demonstrate that the overall B/C ratio of the program was positive, the Settling Parties agreed that an increase to the budget could be justified (id. at 7). In addition, the Company claims that the annual bill impact on customers as a result of the increase is negligible<sup>8</sup> (id.).

C. Program Cost-Effectiveness

KeySpan's Plan includes eleven separate programs (Exh. DTE 1-3, Table 1).<sup>9</sup> KeySpan stated that it used actual program data to estimate benefit-cost ("B/C") ratios for its energy

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<sup>7</sup> The Company's proposal increases the services per household from \$1,838 to \$2,000 (Exh. DTE 1-5).

<sup>8</sup> The Company estimates that the proposed increase to the low-income program budget coupled with revised incentive levels would raise a typical Keyspan residential heating customer's bill by \$2.27 per year (Exh. RR-DTE-1).

<sup>9</sup> These include the Low-Income Weatherization program; the Energy Star Thermostats program; the Energy Star Homes program; the Energy Star Windows program; the Residential High Efficiency Heating Equipment program; the Residential High Efficiency Water Heating program; the Residential Weatherization program; the Commercial Energy Efficiency program; the Commercial High Efficiency Heating program; the C&I Building Practices and Demonstration program; and the Economic Redevelopment program (Exh. DTE 1-3, Table 1).

efficiency programs for years 2002 and 2003 (Exh. DTE 1-3, Att. DTE 1-3-A at 1-4). The calculation of the B/C ratios was based on the Total Resource Cost (“TRC”) Test method approved by the Department in D.T.E. 98-100 (id.). According to the Company, the B/C ratios for individual programs for 2002, holding incremental costs constant over time, ranged from 1.00 for the Low-Income Weatherization program to 5.02 for the Energy Star Homes program (Exh. DTE 1-3, Table 1). The overall B/C ratio for all programs for 2002 was 1.85 (id.). For 2003, the B/C ratios for individual programs, holding incremental costs constant over time, ranged from 1.02 for the Residential High Efficiency Water Heating program to 5.03 for the Energy Star Homes program (id.). The overall B/C ratio for all programs for 2003 was 1.88 (id.).<sup>10</sup>

D. Analysis and Findings

1. The Low-Income Program

The Department notes that Keyspan updated the B/C analysis for the Low-Income Program to include the expected program participation rates in 2004, the number and types of energy efficiency measures that will be installed, and the revised program budget of \$3.2 million (Exh. PHRR-DTE-2). The analysis produces a present value of \$4,958,727 for program benefits, which compares favorably to the \$3.2 million in program costs and yields a B/C ratio of 1.55 (id.). As the Low-Income Program remains cost effective with a revised

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<sup>10</sup> According to KeySpan, if incremental costs were to decline over time, the overall B/C ratios for all programs for 2002 and 2003 would increase to 2.45 and 2.50, respectively. The B/C ratios for the individual programs would also increase significantly (Exh. DTE 1-3, Table 1).

\$3.2 million budget, the Department finds the Company's proposal to increase the low-income energy efficiency program's budget by \$500,000 to be reasonable. The Department, therefore, approves increasing the annual energy efficiency budget to \$12.5 million.

2. Program Cost-Effectiveness

An energy efficiency program shall be deemed cost-effective if its benefits are equal to or greater than its costs, as expressed in present value terms. DTE Guidelines at § 3.5. The Department has reviewed the method that KeySpan used to determine the benefits and costs of its energy efficiency programs and finds that the benefits and costs were determined consistent with Department criteria for establishing program cost-effectiveness. Id. at §§ 3.1 - 3.5. The record shows that the B/C ratio for each of KeySpan's energy efficiency programs for years 2002 and 2003 was equal to or greater than 1.0. Although the B/C ratio barely exceeded 1.0 for the Low-Income Weatherization Program and the Residential High-Efficiency Water Heating Program, the calculations showed that the cost-effectiveness of these programs increased significantly if the Company reduced incremental program costs over time. Therefore, the Department concludes that the programs included in KeySpan's Plan are cost-effective. However, we direct the Company to seek ways to improve the cost-effectiveness of the programs whose B/C ratios barely exceeded 1.0. The Department also directs the Company to continue to monitor its energy efficiency programs and to discontinue programs whose B/C ratios become less than one.



#### IV. SHAREHOLDER INCENTIVE PROPOSAL

##### A. Company Proposal

##### 1. Incentive Percentage Rate

KeySpan has requested approval of a performance incentive rate that differs from the method approved in D.T.E. 02-31 (Exh. KS-1, at 1). DOER supports the revised shareholder incentive proposal, stating that the change in the performance incentive rate does not detract significantly from program resources meant to be invested in energy efficiency measures for customers (DOER Letter at 4).

KeySpan's shareholder incentive is currently tied to the variable three-month U.S. Treasury bill rate ("T-Bill rate") ( Exh. KS-1, at 2). See DTE Guidelines at § 5.3. KeySpan states that, due to the very low T-Bill rates in the last year or more, the Settling Parties propose to substitute a fixed rate of 4.25 percent for Program Years 1 and 2 and five percent for the final three years of its market transformation plan (Exh. KS-1, at 2; Brief at 7-8). The Company contends that the three-month T-Bill rate is no longer sufficient to properly promote good program management (Exh. KS-1, at 2). The Company proposes that the Department allow KeySpan parity with the incentive rates the Department has recently granted for certain electric companies to use a fixed rate of 4.25 percent to five percent instead of the T-Bill rate (id. at 8, citing, Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 03-2, at 16 (2002), NSTAR Electric Company, D.T.E. 00-63-A at 8 (2003); Western Massachusetts Electric Company, D.T.E. 00-79-A at 7 (2003); and Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 00-65-A at 7 (2002)). KeySpan notes

that, in allowing the changes for the electric companies, the Department reaffirmed its prior findings “that an incentive must be large enough to promote good program management, but small enough to leave almost all of the money to directly serve customers”(Brief at 8). The Company argues that a sufficient level of incentive is particularly important because, under the Settlement, KeySpan gave up the right to recover lost base revenues (“LBR”) resulting from the installation of energy efficiency measures, in exchange for the right to earn incentives on its energy efficiency programs (id. at 9).

## 2. Incentive Performance Levels

KeySpan states that the DTE Guidelines allow the Company to earn incentives at three performance levels: (1) the threshold performance level of 75 percent of goal; (2) the design performance level of 100 percent of goal; and (3) the exemplary performance level of 125 percent of goal (Exh. KS-1, Att. A at 1, citing DTE Guidelines at § 5.3). Thus, if the Company achieves the threshold performance level, it will receive 75 percent of the design incentive for that program (Exh. KS-1, exhs. 2, 3). Similarly, if the Company achieves the design or exemplary performance levels, it will receive 100 percent or 125 percent of the design incentive for that program, respectively (id.). For performance levels between 75 percent and 125 percent of goal, the incentive will be calculated based on a linear interpolation between the threshold performance level and the exemplary performance level (id.). The maximum incentive that the Company can earn is 125 percent of the design incentive for that program (id.). The Company will not earn any incentives if its performance falls below the threshold performance level (id.).

KeySpan proposes to adjust downward the threshold performance level from 75 percent of goal to 70 percent of goal for Program Year 2, and the exemplary performance level from 125 percent of goal to 110 percent of goal for Program Years 2 through 5 (Exh. KS-1, Att. A at 3, exh. 5; Exh. DTE 1-18). The Company states that the changes are consistent with those approved for Massachusetts Electric Company which operates within the same service territory as KeySpan (Exh. DTE 1-18, citing Massachusetts Electric Company, D.T.E. 03-2 (2003)).

### 3. Determinants of Shareholder Incentives

KeySpan states that, currently, the Company's performance is measured by program participation only, consistent with the DTE Guidelines (Exh. DTE 1-19).<sup>11</sup> According to the Company, in exchange for the Settling Parties' agreement on a fixed incentive percentage rate rather than the variable three-month T-Bill rate, it has agreed to more rigorous performance metrics than are required by the DTE Guidelines ((Exhs. KS-1 at 2, Att. A, at 3-5; Exh. DTE 1-19; RR-DTE-4). The Company proposes two additional performance measures for Program Years 2 through 5, and wants to earn incentives on them similar to those earned on program participation (Exhs. KS-1 at 2, Att. A, at 3-5; DTE 1-19). The performance measures include: (1) program cost-effectiveness, with the exception of the Low-Income Program, the Building Technology and Demonstration Program, Trade Ally activities and other education initiatives; and (2) the total therm savings from program participants (id.).

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<sup>11</sup> Currently, KeySpan measures program "performance" by the level of customer participation the Company achieves in individual energy efficiency programs in a given year (Exh. DTE 1-21). The participation measure looks at whether or not the Company has enrolled as many customers in the program as it has planned (Tr. at 60).

KeySpan states that the new metrics will help to ensure that the Company's programs continue to be cost-effective and provide the maximum value possible to customers (RR-DTE-4).

KeySpan states that although the Company's energy efficiency programs satisfy the DTE Guidelines for cost-effectiveness (as discussed above), its proposed cost-effectiveness performance metric would encourage the Company to achieve even greater cost-effectiveness of these programs by lowering costs over time (Tr. at 82-84). The Company proposes to measure program cost-effectiveness in terms of cost-per-lifetime therms saved by program participants (Exh. DTE 1-21).<sup>12</sup> The Company also proposes to establish an initial benchmark for program cost-effectiveness in Program Year 1, and use it as a baseline for setting future performance goals (Exh. DTE 1-19). The performance goals will be the incremental annual improvements to cost-effective program delivery (*id.*). KeySpan states that the Company would seek incentives for the cost-effectiveness performance metric only once during the year in which each measure was installed (Tr. at 59).<sup>13</sup>

KeySpan proposes to measure the savings performance metric in terms of the total (net) therms saved annually by program participants (Exhs. DTE 1-21; DTE 2-5). The Company stated that, to address the concerns of the other Settling Parties that its projected annual therm

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<sup>12</sup> Mathematically, the cost-effectiveness performance metric is calculated as (a) the Company's total costs for delivering an individual program each year divided by the product of (b) the total annual therms saved by customers as a result of participating in an individual program and (c) the lifetime of the measures implemented by customers as a result of participating in an individual program (Exh. DTE 1-21; Tr. at 56-58).

<sup>13</sup> The Company stated that it has yet to establish benchmarks and annual performance goals for the cost-effectiveness and savings performance metrics (Exh. DTE 2-7; Tr. at 42-43, 83-84).

savings estimates may be outdated or inaccurate, the Company will engage an outside consultant to conduct a research study to validate the savings estimates (Exh. KS-1, Att. A at 4; Exhs. DTE 1-21; DTE 1-23).<sup>14</sup>

KeySpan explained that the validation research study will use three complementary research methods: secondary research, bill impact studies, and on-site measurement (Exh. KS-1, Att. A at 6-7). KeySpan proposed a total research budget of no more than three percent of the total program budget (id.). The Company plans to complete 50 percent of the therm validation in Program Year 3 and the remaining 50 percent in Program Year 4 (id.). The Company stated that once the validation study is completed for a program, the results for that program will be used to evaluate program performance for the remainder of the five-year plan (id.). KeySpan will provide DOER and the other Settling Parties with electronic copies of program data following the research study, using a uniform format similar to the format used by the Massachusetts investor-owned electric distribution companies, to facilitate state-wide analysis of energy efficiency activity (id.).<sup>15</sup>

B. DOER

DOER supports the Company's proposal to revise the performance incentive (DOER Letter at 3). DOER notes that at the time of the D.T.E. 02-31 Settlement, it estimated

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<sup>14</sup> The Company proposed to issue a request for proposals for the research study (Exh. KS-1, Att. A at 6).

<sup>15</sup> KeySpan stated that it will submit a copy of the electronic reporting format that the Company developed with the Settling Parties to the Department with its August 2004 compliance filing (Exh. KS-1, Att. A at 6-7).

that the T-Bill rate typically averaged between four percent and six percent, which was considered an adequate level of return to motivate the companies to deliver high-quality energy efficiency services (id.). DOER further notes that for the period May 1, 2002 through April 30, 2003, the T-Bill rate has averaged 1.14 percent, which it maintains is a level that no longer adequately motivates the energy efficiency administrators and consequently threatens the Legislature's intent to provide high quality energy efficiency programs to ratepayers (id.). DOER concludes that the proposed 4.25 percent to five percent after-tax incentive rate provides program administrators with a meaningful performance-based incentive that does not detract significantly from program resources meant to be invested in energy efficiency measures for customers (id. at 4).

C. Analysis and Findings

1. Incentive Percentage Rate

When an entity seeking Department approval of its energy efficiency plan requests a different method from that specified in the DTE Guidelines, the burden falls on that entity to demonstrate the compelling nature of such a request. DTE Guidelines at § 1(2). In this proceeding, KeySpan has proposed a fixed rate of 4.25 percent for Program Years 1 and 2 and five percent for the final three years of its energy efficiency program, instead of the three-month T-Bill rate, in calculating its shareholder incentives.

The Department previously granted an exception to the DTE Guidelines that allowed electric distribution companies to use a fixed rate of 4.25 percent instead of the 2002 U.S.

Treasury bill rate as an element in calculating their shareholder incentives. NSTAR Electric Company, D.T.E. 00-63-A at 8 (2003); Western Massachusetts Electric Company, D.T.E. 00-79-A at 7 (2003); Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 03-2, at 17 (2003); Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 00-65-A at 7 (2002). The Department has recognized that the size of an incentive must balance promoting good program management with benefitting ratepayers by directing most of the budget to program implementation. D.T.E. 98-100, at 37. DOER, the agency charged by the Legislature with much of the oversight of electric energy efficiency programs,<sup>16</sup> has agreed that incentives are needed to motivate companies to manage their energy efficiency programs well. Id. at 35. In commenting on the DTE Guidelines, DOER maintained that an incentive of four to six percent, equal to a three to four percent riskless real estate return plus an inflation rate of one or two percent, would be sufficient to motivate distribution companies to manage energy efficiency programs well. Id. at 36. DOER stated that the then-recent T-Bill rate fell in the required four to six percent range. Id. at 37.

The Company has provided evidence that the T-Bill rate is now lower than the rate recommended by DOER in D.T.E. 98-100 (Exh. DTE 2-6; RR-DTE-4; RR-DTE-6). While KeySpan's proposed rates exceed the rate now provided for in the DTE Guidelines, they are near the middle range that DOER proposed in D.T.E. 98-100. The Department reaffirms that an incentive must be large enough to promote good program management, but small enough to leave almost all of the money to directly serve customers. The Company's proposal balances

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<sup>16</sup> G.L. c. 25A, § 11G.

these two objectives, and is consistent with DOER information that the Department used in formulating the DTE Guidelines. The Department finds that KeySpan has met its burden to demonstrate the need for its request for an alternate method to calculate the shareholder incentive rate in 2003-2004. DTE Guidelines at § 1(2). Accordingly, the Department grants the Company's request for an exception to the DTE Guidelines, and grants KeySpan's request to use 4.25 percent instead of the T-Bill rate in calculating after-tax shareholder incentives for the first two years of the Plan. In the final three years of the Plan and depending on the prevailing T-Bill rate, KeySpan may propose changes to the method for calculating the shareholder incentive rate for Department consideration.

## 2. Incentive Performance Levels

Pursuant to the DTE Guidelines at § 5.0, a distribution company may earn a shareholder incentive if its energy efficiency program is found to have operated within threshold and exemplary performance levels of 75 percent and 125 percent of design performance level, respectively, as measured during the post-implementation phase.<sup>17</sup> In other words, a distribution company that does not achieve at least 75 percent of its design performance level for a given year would receive no shareholder incentive, while a distribution company whose performance exceeded the 75 percent threshold would receive a shareholder incentive that would vary based on its actual performance level, up to 125 percent of the design performance level. D.T.E. 98-100, at 18. KeySpan has proposed to establish a new threshold

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<sup>17</sup> KeySpan stated that the design performance level consists of achieving 100 percent of the goal set forth in its Plan for each year (Exh. KS-1, exh. 3, 5).



performance level of 70 percent of design level for Program Year 2, and a new exemplary performance level of 110 percent of design level for Program Years 3 through 5.

The record indicates that lowering the threshold performance level to 70 percent of design level for Program Year 2 only (the transition year) will result in a negligible effect on ratepayers (Exh. DTE 1-37, Table 1; Exh. DTE 2-10). The change would result in an additional after-tax incentive for the Company of \$2,590, which is less than one percent of the total after-tax earned incentive that the Company could earn at the design level absent the change (Exh. DTE 2-10).

The record further indicates that KeySpan could earn the maximum incentive amount of 125 percent of design level for seven DSM programs proposed by the Company if the exemplary performance level was maintained at this level (Exh. DTE 1-37, Table 1). Therefore, lowering the exemplary performance level from 125 percent to 110 percent of design level for Program Years 3 through 5 would cap the maximum incentive that KeySpan could earn on those seven programs to 110 percent of design level. This would result in a lower shareholder incentive for the Company for Program Years 3 through 5 (id.). Therefore, lowering the exemplary performance level to 110 percent of design level for Program Years 3 through 5 would benefit ratepayers because the Company would spend more funds on energy efficiency activities that benefit customers directly, instead of on shareholder incentives. Accordingly, the Department finds that the Company has demonstrated the reasonableness of its proposal, and that the proposal is consistent with the public interest. The Department, therefore, approves KeySpan's proposal to establish a threshold performance level of

70 percent of design level for Program Year 2, and exemplary performance level of 110 percent of design level for Program Years 3 through 5.

### 3. Determinants of Shareholder Incentives

The Department notes that the savings and cost-effectiveness performance metrics proposed by KeySpan represent a shift in scope and emphasis when compared to the existing method for calculating shareholder incentives. Distribution companies may express the level of performance they expect to achieve in implementation of their energy efficiency programs in levels of savings, in energy commodity and capacity, and in other measures of performance as appropriate. DTE Guidelines at § 5.2. Here, the Company has established other measures of performance, including cost-effectiveness performance measures and total energy savings performance measures.

Further, we note that the savings and cost-effectiveness performance metrics promise to reward energy efficiency accomplishment and cost reduction, and we recognize the importance of a mechanism that makes this relationship visible (Tr. at 82-84). In addition, the Department acknowledges the importance of cost reduction, especially program administration and other overhead costs, as a means of rewarding superior management and promoting effective use of energy efficiency funds. Accordingly, the Department finds that the Company's savings and cost-effectiveness performance measures are appropriate. The Department directs KeySpan to submit for Department review and approval the benchmarks and annual performance goals for the savings and cost-effectiveness performance measures before implementing the proposed changes.

KeySpan proposes to conduct a research study to validate the projected savings estimates from the Gas Evaluation and Monitoring Study (“GEMS”)<sup>18</sup> as a result of concerns expressed by the other Settling Parties that GEMS may be outdated or inaccurate. In Boston Gas Company, D.P.U. 94-15 (1995), the Department ordered LDCs, when petitioning for the recovery of LBR and incentives from energy efficiency programs, to develop energy savings estimates for their residential and multi-family programs using the GEMS method,<sup>19</sup> subject to certain conditions. See D.P.U. 94-15, at 52-54. The record in this case shows that KeySpan has not experienced any problems with the results of GEMS regarding their accuracy or reliability (Exh. DTE 1-26). Therefore, a research study to validate the projected savings estimates from GEMS is not warranted at this time. However, if, in the future, KeySpan determines that there is a need to update GEMS, we encourage the Company to conduct the research study in collaboration with the other Massachusetts LDCs.

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<sup>18</sup> GEMS was a comprehensive research project undertaken by Boston Gas Company (“Boston Gas”) to provide statistically valid energy savings from the delivery of residential and multi-family natural gas energy efficiency programs. Boston Gas Company, D.P.U. 94-15, at 12 (1995).

<sup>19</sup> The GEMS method includes the overall analytical framework established by Boston Gas to: (1) determine the effectiveness of Boston Gas’ residential energy efficiency programs by estimating the amount of gross energy saved from a sample of the Company’s residential customers; (2) transfer these results to the Company’s residential energy efficiency and other LDCs’ energy efficiency programs; and (3) adjust gross energy savings to account for factors that affect net program savings. D.P.U. 94-15, at 12.

V. RCS PERFORMANCE METRICS

KeySpan has proposed modifications to its RCS performance metrics based on an agreement reached with DOER (Exh. KS-1, Att. B at 1). Massachusetts LDCs are required to file RCS programs with the Department pursuant to G.L. c. 164, App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.0 et seq. The Department reviews RCS programs separately from LDCs' energy efficiency programs. Therefore, the Department declines to comment on KeySpan's RCS proposal in this proceeding. The Company may file a separate petition for modifications to its RCS program with the Department together with its RCS annual compliance filing.

VI. ORDER

Accordingly, after due notice, hearing, and consideration, it is hereby

ORDERED: That the petition of KeySpan Energy Delivery New England for approval of modifications to its energy efficiency plan for program years 2002 to 2007 is APPROVED; and it is

FURTHER ORDERED: That the shareholder incentives proposed by KeySpan Energy Delivery New England for its energy efficiency programs for the period May 1, 2002 through April 30, 2004 are APPROVED; and it is

FURTHER ORDERED: That the energy efficiency performance summary of KeySpan Energy Delivery New England for the period May 1, 2002 through April 30, 2004 is APPROVED; and it is

FURTHER ORDERED: That the increased budget for KeySpan Energy Delivery New England's energy efficiency programs for the period May 1, 2003 through April 30, 2007 is approved; and it is

FURTHER ORDERED: That KeySpan Energy Delivery New England follow all other directives contained in this Order.

By Order of the Department,

/s/ \_\_\_\_\_  
Paul G. Afonso, Chairman

/s/ \_\_\_\_\_  
W. Robert Keating, Commissioner

/s/ \_\_\_\_\_  
Eugene J. Sullivan, Jr., Commissioner

/s/ \_\_\_\_\_  
Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Act of 1971).

**TABLE 1. Benefit/Cost Ratios for KeySpan Energy Delivery Energy Efficiency Programs  
(Includes Program Years 2002, 2003 and 2004)**

Program Name	Incremental Cost Held Constant		Incremental Cost Declines Overtime	
	as of 4-30-02	as of 11-20-03	as of 4-30-02	as of 11-20-03
Low Income Weath.Program	1.00	1.49	1.07	1.49
Energy Star Thermostats	2.58	2.58	3.07	3.08
Energy Star Homes	5.02	5.03	6.64	6.65
Energy Star Windows	2.45	2.54	3.48	3.68
Res. HE Heating Equipment	2.04	2.23	2.95	3.37
Res. HE Water Heating	1.02	1.02	1.48	1.46
Res. Weath. Program	1.29	1.30	1.62	1.64
Comm. Energy Efficiency	1.65	1.64	2.20	2.18
Comm. HE Heating	2.48	2.55	3.37	3.50
C&I Bldg Practices & Demo	1.16	1.16	1.47	1.47
Economic Redevelopment	1.78	1.55	2.15	1.87
<b>Overall B/C Ratio</b>	<b>1.85</b>	<b>1.88</b>	<b>2.45</b>	<b>2.50</b>

Source: Exh. D.T.E. 1-3, Table 1.